

VZCZCXYZ0003
PP RUEHWEB

DE RUEHKV #2080/01 2911225
ZNY CCCCC ZZH
P 171225Z OCT 08
FM AMEMBASSY KYIV
TO RUEHC/SECSTATE WASHDC PRIORITY 6564
INFO RUCNCIS/CIS COLLECTIVE
RUEHZG/NATO EU COLLECTIVE

C O N F I D E N T I A L KYIV 002080

SIPDIS

E.O. 12958: DECL: 12/31/2018
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SUBJECT: REGIONS-BYUT COALITION DEAL: WHY IT FELL APART

Classified By: DCM James Pettit for reasons 1.4 (b,d).

SUMMARY

¶1. (C) The Party of Regions and Prime Minister Tymoshenko's party (BYuT) narrowly failed to form a majority coalition in the Rada after the ruling coalition disintegrated on September 3. They had agreed to a broad pro-European foreign policy that included continued cooperation with NATO. Ultimately, however, mistrust and fears that the other side would fail to fulfill the coalition agreement sunk the deal. An internal power struggle within Regions may have also contributed to the agreement's failure. END SUMMARY.

NINETY-NINE PERCENT AGREED

¶2. (C) In an October 16 meeting with the Ambassador, senior Regions MP Andriy Kluyev said that Regions and BYuT had agreed to form a majority coalition in the Rada in early September. Personal negotiations between Tymoshenko and former Prime Minister Yanukovych, with Kluyev as the facilitator, had been ongoing since the summer. Kluyev said there was "99% agreement" on the coalition agreement and there were no outstanding contentious issues. The key goal of the coalition would be political and economic stability in order to raise standards of living. Although he offered no details, Kluyev also said that the deal would have made next year's presidential election so quiet "you would hardly know it was happening."

¶3. (C) Kluyev emphasized that the populace was ready for a Regions-BYuT coalition. He said that internal polls showed seventy-nine percent of voters supported the creation of their coalition instead of an election. Their constituencies were also expecting such a tie-up because in many local and regional councils BYuT-Regions coalitions already existed.

RUE, VANCO, AND FOREIGN POLICY NOT A PROBLEM

¶4. (C) The coalition documents agreed to remove the shady gas middleman RosUkrEnergo (RUE) and move to direct contracts between state-run Naftohaz Ukrainiy and Russia's Gazprom. Kluyev said that eliminating RUE was not a concession to Tymoshenko, as he had publicly supported the removal of RUE since he was Deputy Prime minister in 2007. Kluyev also said that the coalition agreement would have reinstated Vanco's contract to develop hydrocarbons in the Black Sea. The deal would proceed at a slower pace than envisioned in the original contract, but the entire agreement would have been fulfilled. Kluyev described Tymoshenko as a "player" who could find a way to sell Vanco to her constituents despite previously canceling the project.

15. (C) Under the coalition agreement Ukrainian foreign policy would focus on integrating into European economic and political structures. Ukraine would follow the EU's lead on Georgia and other conflicts in the Caucasus. Kluyev said that cooperation with NATO would not change. The agreement defined a "purely pragmatic, purely Ukrainian" policy on NATO and allowed for NATO membership after a nationwide referendum.

NO GUARANTOR EQUALS NO DEAL

16. (C) Despite reaching an amicable coalition agreement and cooperating on the September 2 legislation to weaken the presidency, fear of betrayal on both sides ultimately doomed the coalition deal. Kluyev said that frequent meetings between Yanukovych and Tymoshenko had improved their relationship. However, it was not enough to overcome seven years of competition and mud-slinging. Kluyev said that Yanukovych and Tymoshenko needed a guarantor who could ensure both sides fulfilled the agreement, but lamented that there was no such person in Ukraine.

17. (C) Kluyev said there still remained the chance of a coalition with BYuT after the election. He maintained close contact with Tymoshenko, whom he called an old friend, and she remains open to an alliance. Kluyev cautioned, however, that Regions needs to agree with BYuT to moderate the tone of their campaigns to avoid jeopardizing a post-election coalition.

OTHER DYNAMICS

18. (C) Regions MP Taras Chornovil, who has announced he will quit the party, in a meeting with Ambassador on October 14 described other factors that may have played a role in undermining a Regions-BYuT coalition. Chornovil indicated his decision to quit Regions was due to his disgust with the continued infighting within the party. He said that a faction within Regions associated with RUE, headed by Yuriy Boyko, Serhiy Lyvochkin, and Hanna Herman, ultimately convinced Yanukovych not to form a coalition with BYuT. Chornovil said Lyvochkin and Hanna Herman have a monopoly on all information reaching Yanukovych and convinced him that a coalition with Yushchenko would be more secure. He noted that ever since Boyko stepped up in 2006 and funded Regions' Rada campaign when Akhmetov was unable to, RUE's influence has been growing within the party. It is now more influential than Akhmetov, who only controls ten to twelve deputies and is no longer the main funder of the party. Chornovil said that Regions would have to remove the RUE faction from the party in order to form a coalition with BYuT -- because of Tymoshenko's strident opposition to RUE's role in the gas trade.

COMMENT

19. (C) The outcome of a Regions-BYuT coalition would be to minimize Yushchenko's role. Kluyev's hints of a quiet presidential election under the coalition agreement probably means the presidency would have been reduced to a figurehead position not worth fighting for. If Regions and BYuT focus their attacks on Yushchenko in the expected parliamentary election, rather than each other, it would indicate that there is a chance that a Regions-BYuT coalition could still emerge in the next Rada.

TAYLOR